Access to Microfinance & Improved Implementation of Policy Reform
(AMIR Program)

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JORDAN CAPITAL MARKETS

Assistance to Establish a Mutual Fund Industry in Jordan

Brochure on Investing in Mutual Funds and Workshop Materials

Final Report

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Table of Contents

I. INTRODUCTION AND BACKGROUND

A. This report summarizes the technical assistance provided under the USAID funded Access to Micro finance & Improved Implementation of Policy Reform (AMIR) during April-May 2001 to the Jordan Securities Commission in its efforts to establish a mutual fund industry in Jordan.

Earlier, AMIR in its report titled “Assistance to Establish a Mutual Fund Industry” submitted in May 2000, identified four principle activities for technical assistance under the AMIR program to be provided to Jordan Securities Commission, the fund industry and the Association of Certified Financial Professionals. The areas identified by that report were:

- Strengthen the regulatory framework for Mutual Funds
- Build an operating framework for JSC covering licensing and issuance procedures, monitoring and inspection procedures and necessary formats as desired by JSC
- Formulate professional standards of practice for the Funds;
- Commence a broad industry, intermediary and investor education and training program built around preparing educational and promotional materials, conducting training workshops and seminars.

The report submitted in May 2000 focused on Regulatory framework and corresponding legal provisions in various legislations that deal with mutual funds, their organization and operations. Some of the recommendations of that report particularly those dealing with affording a legal status to the funds such that they can operate as “independent entities” with an arms’ length relationship from their constituents were accepted by the JSC and action is being taken to amend the mutual fund law and corresponding directives issued by JSC.

B. During April-May 2001, AMIR took further steps in providing continuing technical assistance to JSC and the industry on mutual funds. Mr. R N Kesava Prasad, Consultant, Chemonics International Inc., visited Amman between April 26 and May 12, 2001 and the broad objectives of the visit were:

- To create a public awareness brochures on mutual funds;
- To conduct workshops to the staff of JSC, industry and capital market professionals; and
- To prepare some sample forms for JSC to be used in conjunction with disclosure and monitoring of funds. .

During his visit, Mr. Prasad met with the officials of the Jordan Securities Commission, the Amman Stock Exchange, the Depository and a few commercial and Investment Banks to review the fund market, needs of various interest groups and to structure a training product to satisfy such needs. Over the course of this visit, he produced a brochure on “Investing in Mutual Funds – A concise guide for Investors (Section 1) which is part of this Report. Specifically, the brochure covered:

1. What is a Mutual fund and types of funds with their return risk profile
2. Advantages of investing in Mutual funds
3. Working of a Mutual fund
4. How to invest in Mutual Funds

This was reviewed by JSC and their comments have been duly incorporated. This brochure will have to be translated into Arabic and distributed amongst the industry players, interest groups and the general investing public.

In addition to the brochures, a workshop over 2 days was conducted for the staff of JSC and another for the members of the Association of Certified Financial Professionals. Sections 2 and 3 contain the workshop materials. The workshop for JSC covered in detail the following topics:

1. General Concepts relating to Mutual Funds
    - Fund description, types of funds and advantages of funds
    - Risk – return profile of funds
    - Cost and expenses
    - Fund returns and performance measurements
2. Organization and working of funds
    - A typical fund structure
    - Comparative study of the JSC permitted structures vs. structure in US and India
    - Roles of various funds’ constituents such as Trustees, Investment Managers, Custodians, etc.,
    - Critical issues for investor protection
    - Fund transaction processes
3. Basic accounting and valuation principles, methods
    - Concepts of Net Asset Value and how NAVs are calculated
    - Generally accepted practices of valuations
    - Pricing of units
    - Reporting fund activities and performance.

At the workshop held for the members of the Association for Certified Financial Professionals, besides general concepts, funds organization and their working, a framework for distribution of funds and also the creation of public awareness and ethical selling practices were also presented.

II. AMIR RECOMMENDATIONS

The fund industry in Jordan is nascent. The Regulator, the industry and the interest groups such as the professional associations will have to play a significant role to develop the fund industry. Enabling regulations, suitable tax incentives, adoption of best international practices by the industry and general investor education all play a crucial role in the development of the fund industry.

The consultants of AMIR have had extensive discussions with the officials of JSC, the industry and various interest groups on the current status of the fund industry, the opinions of various end uses of the product as well as those that distribute such products. Emerging out of such discussions, AMIR makes the following recommendations.

a. Strengthen the Regulatory framework. Following AMIR 's review of the existing securities laws that include mutual fund regulations and directives and its recommendations, JSC has proposed amendments to the law regulating mutual funds, to give a "distinct legal status" to the funds. We recommend the regulatory framework be strengthened through the JSC regulations including:

- ***Empowering the Trustees of the Funds,*** the first level regulators with necessary powers, duties and responsibilities. The contracts between the Fund and the Trustees; the Trustees and the Investment Managers must provide for such essential content as may be required for the Trustees to discharge their duties in connection with the supervision of the Fund. In this connection, AMIR's report on mutual funds submitted in May 2000 contained a few recommendations and we suggest that JSC nay review those recommendations for appropriate disclosures.
- ***Entry level control by specifying eligibility criteria*** in terms of business track record, capital adequacy and net worth requirements for investment managers, trustees and custodians so that organizations with adequate repute set up mutual funds;
- ***Prevention of front running and self dealing*** by expanding the existing provisions in the law and the directives which prevent an investment manager from having a direct stake in any transaction it conducts for the fund, to include the employees, directors and other affiliates of the Investment Manger and the Trustee.
- ***Protecting unit holders' rights*** and affording them an opportunity to exercise such rights is key to gaining investor trust and confidence in mutual funds. A suitable article may by incorporated in the law and the regulations that give them those rights, particularly with respect to:

i. Amendments to fund prospectus/offering documents dealing with investment objectives, strategy, etc that could have a material affect on the investment decision of the investors;
ii. Material changes to the contracts of the Funds with Investment Managers and other affiliated entities;
iii. Rights to receive unit certificates, dividends and redemption proceeds with in a specified time failing which the investment managers will be liable for a penalty.

- ***Daily valuation of open-end funds*** based upon the valuation and accounting guidelines prescribed by the regulations.
- ***Providing uniform accounting policies*** and standards and valuation norms

b. Formulate professional standards of practice for the Funds. It is easier to gain public trust and confidence and also the approval of the regulatory bodies in jurisdictions in which the funds intend to be marketed, if the industry as a whole employs best international practices and adhere to a code of conduct that promotes compliance with regulations and affords more transparency in fund dealings. We recommend that JSC should encourage the Association of Certified Financial Professionals to formulate necessary code of ethics for fund managers, trustees, and salesmen.

c. ***Commence investor education and industry training*** to promote wider public acceptance of mutual funds by:

i. Organizing seminars/workshops for various interest groups such as the officers of the funds, their trustees, fund distributors and other opinion makers and
ii. Creating general investor education materials explaining the concepts of investing, financial goals and objectives, concepts of funds, their advantages, understanding their performance, etc.
iii. Training and licensing fund salesmen

III. NEXT STEPS

Following the discussions that the AMIR Program Consultant had with the officials at JSC, the Amman Stock Exchange and some of the financial professionals in Jordan and having done a preliminary market need assessment for assistance in training and conducting public awareness campaigns for mutual funds, we suggest the following:

a. ***Strengthen regulatory framework***.

i. Improvising the licensing procedures, instituting a framework for monitoring and inspection of mutual funds;
ii. Preparing necessary formats of reports, forms, etc., to be used in conjunction with licensing, monitoring and inspection of funds;
iii. Drafting a code of ethics for Investment Managers and Trustees, Fund distributors;
iv. Drafting accounting policies and valuation norms, performance measurement and presentation standards;

b. ***Public Awareness***. For conduct of public awareness a beginning has been made with the brochure "Investing in Mutual funds – A concise guide for Investors" (Section 1) produced by AMIR for JSC. This should be translated into Arabic and distributed to general investing public, the industry and other financial professionals. This effort must be supported by seminars to general investing public on mutual funds. These seminars should be held not only in Amman city but also such other cities and towns where there is a lot of potential for conversion.

c. ***Training of JSC Staff, Fund officers, Trustees, Fund salesmen, Stock Exchange officials etc.*** The staff at JSC, Fund Organizations, Stock Exchanges, and broker dealer firms must be adequately trained with relevant detail on various aspects of funds and their operations. A beginning has been made during the current visit when two workshops were conducted for the JSC staff and the members of Association of Certified Financial Professionals. As desired by JSC, Amman Stock Exchange and the general industry players, more of such workshops with a higher level content designed to suit the needs of specific groups should be held by AMIR Program in conjunction with JSC.

Section 1
Investing in Mutual Funds
A Concise Handbook for Investors

Table of Contents

1 WHAT IS A MUTUAL FUND

Globally, Mutual Funds or Unit Trusts, as they are called in some countries, are the most successful medium of investing that add a significant value to the wealth of their investors. In the West and large parts of Asia, they are the most preferred investment, next only to Bank deposits. In the United States of America, where most of the mutual fund boom occurred beginning 1980s, mutual funds have overtaken bank deposits and total assets of insurance funds. In the US alone, as on date there are over 8000 funds with assets exceeding US $ 6 trillion. World over, the total assets of the mutual funds exceed US $ 12 trillion.

The Jordanian mutual fund industry is in its infancy. The Jordan Securities Commission has recently issued regulations governing mutual funds and so far two funds have been launched with a cumulative assets of JD 2 million.

What is a Mutual Fund?

A Mutual Fund is an Investment Fund that pools money from its unitholders through sale of its units and invests such money in an array of financial assets such as Shares, Bonds, Money Market Instruments etc. An investor in a mutual fund buys units of the fund which represent a proportionate ownership in the underlying securities of the Fund. The securities are selected by a professional fund manager matching with the Fund's stated investment goal such as Income, Growth etc. The Fund earns income from its securities and capital gains from the sale of such securities. This income is shared by all the unitholders in the proportion to their individual investment.

Mutual funds can be ***open end or closed end.*** **Open-end mutual funds** are those which offer their units continuously for sale and redeem regularly their units at their current net asset value adjusted to any sales load. Units of open-end funds can be bought directly from the mutual fund company. **Closed end funds** are those which offer their units only at the time of their initial launch and do not redeem their units like a open end fund. The units of closed end funds are listed on the stock exchanges to allow for their trading so that the investors can buy in and out of such funds. The price at which the units of the closed end funds get traded can be at a premium or discount to their ***net asset value.*** (NAV)

Why invest in Mutual funds?

World over, people invest in mutual funds because they have specific investment goals such as buying a house, sending children to college, providing for their retirement, etc. Whatever the investment goal mutual funds offer you the following advantages.

1. ***Diversification.*** Mutual funds invest securities of several companies across broad spectrum of sectors and industries not only in a single market but also across different markets. This diversification reduces the risk of loss substantially for seldom do the stocks of all companies decline at the same time or in the same proportion. It is often difficult for an average individual investor to construct a portfolio as diversified as that of a Mutual Fund.

2. ***Professional Management.*** Professional investment managers having access to extensive research on the companies, sectors, industries in which funds invest, manage mutual funds. They choose investments that match the funds' investment objectives and investment decisions are backed up adequate research on securities. Such expert investment advice is a valuable service to investors who neither have time nor expertise to manage their personal investments or to research several hundred potential targets. Mutual funds provide an economical way for investors to access expert investment advice and diversification that is normally available to Institutions and large and wealthy investors.

3. ***Liquidity*** Investors in open end mutual funds can exit from their investments much faster than Stock Exchange traded investments or bonds which offer a little or no liquidity for their scrips.

4. ***Convenience.*** Mutual funds make investing easy and convenient by offering various services from buying and selling of units directly, by telephone or by fax to switch from one fund to another being managed by the same Investment Manager or to build a portfolio though systematic Investment Plans or planned withdrawals through systematic withdrawal plans. Funds offer automatic reinvestment of income distributed and provide an extensive record keeping to track the investments by an investor.

5. ***Reporting.*** Mutual Funds send to their unitholders periodical reports on the funds' portfolio, its performance and their outlook on the market, economy, etc., The annual/semi-annual reports give a complete account of funds assets and liabilities as on that day. These reports enable investors to judge the performance of the fund and to learn whether the investment goal promised in the Prospectus of the Fund has been achieved.

2. Types of Mutual Funds

There are four basic types of mutual funds, Equity (also called as stock), bond, hybrid and money market funds. With in this broad category, funds can have several investment objectives. These are:

1. ***Growth Funds.*** Invests primarily in shares with a high potential for growth over medium to long term. These funds assume a higher risk for a higher return over other types of funds. Potential for current income is low to moderate in these funds. Investors unwilling to take risk or those intending to withdraw from the fund in the short term should not invest in such funds.

   The growth funds generally are suited for:

   - Investors in their prime earning years and willing to assume a lot of risk
   - Investors seeking high capital growth over a longer period of time.

2. ***Income Funds.*** Invests primarily in corporate and sovereign bonds with potential for moderate to high current income and a very little capital growth. These funds are less risky than growth funds but also returns from these funds are always lower than growth funds over a longer period of time.
   The income funds are generally suited for:

   - Investors needing high current income
   - Retired investors required to protect their principal and plan for high current income.

3. ***Balanced Funds.*** Invests primarily in a mix of shares and bonds having potential to earn both current income and capital growth. These funds tend to distribute their current income making them attractive to several investors. The riskiness of such funds depends upon their mix of debt and equity.

   These funds are ideal for:

   - Investors of all types and age, looking for a combination of income and growth

Remember, the risk and return profile of each type of fund varies with its objective and its pattern of holding securities.

Investment Objective	Type of Mutual Fund	Securities normally held by Funds	Growth Potential	Income Potential	Stability of Principal
Stability of Principal and Current Income	Money Market and Gilt Funds	• Government securities • Money Market Instruments	None	Low to Moderate	High
Current Income	Bond / Debt funds	• Corporate bonds • Govt. bonds • Money Market Instruments	None	Moderate to High	Low to Moderate
Income and Growth Funds	Balanced funds	• Shares of Companies and Bonds	Moderate	Moderate to High	Low to Moderate
	Growth and Income Funds	• Shares of dividend paying companies and Bonds	Moderate	Low to Moderate	Low
Capital Growth	Domestic Growth Funds	• Shares of Jordanian companies	High	Very Low	Very Low
	International Growth Funds	• Shares of International companies	High	Very Low	Very Low

Note: Within the above, there can be several combinations in terms of investment objective and pattern of security holding.

3. How Mutual Funds Make Money

Mutual Funds earn money through investing in a diversified portfolio of financial assets, stocks, bonds, money market instruments, etc., From those securities these funds earn ***Current Income and Capital Gains,*** which when realized are distributed, net of operating expenses, to the unit holders.

- **Current Income.** Investments into interest bearing securities such as bonds and money market securities produce interest on a regular basis to the Funds. In addition, some of the stocks held by the fund may also produce dividends to the Funds. These incomes when realized are distributed by the Funds in the form of ***dividends*** or other income distribution. Such distributions by the Funds can be annual, half-yearly, quarterly or even monthly, depending upon the Fund's distribution policy.

  The annual income produced by the Fund which is expressed as a percentage to its ***market price*** (if closed-end) or ***Net Asset Value*** is knows as its ***Yield.*** For example, a fund having a net asset value of JD 110 pays out JD 11 per year in income has a yield of 10%.

  YIELD CALCULATION

  Fund's NAV : JD 110
  Distribution : JD 11
  Yield : 11/110 = 10%

- **Capital Gains.** Capital gains accrue to the fund when its investments in securities appreciate in value over a period of time. These gains are ***unrealized*** until such securities are sold by the fund. Capital gains until realized and distributed to the unit holders, help the fund in posting higher NAVs. When the fund sells such investments and realizes cash, capital gains are said to be ***realized.*** Depending upon the distribution policy of the funds, they may periodically distribute such realized capital gains to their unit holders. Whenever such distribution occurs, there will be a corresponding reduction in the funds NAV or the market price which is then called as ***ex-dividend NAV or ex-dividend market price.***

Measurement of Mutual Fund Performance. ***Total return and yield*** are the two better measurements of a mutual fund performance. Of the two, Total Return is the best indicator to judge the performance not only as a stand-alone but also to compare the fund performances over a period to time, to select the right fund for an investor's portfolio.

Total return is the change in value of the investment in a fund considering reinvestment of all distributions of the fund over the given time. Total return may be presented in two ways (a) the ***cumulative total return,*** which is the appreciation in the value of units over the entire holding period, assuming reinvestment of all distributions by the fund and (b) the ***average annual total return*** which is the compounded annual return required to produce the cumulative total return. Total returns can be negative if the market price or the NAV of the Fund declines over a period of time instead of rising over the same time.

Total Return Calculation

Purchase of a Fund Unit :	JD 100
Distributions by Fund :	JD 10
Appreciation in Unit Value :	JD 8

Total Return = (10+8)/100 = 18%

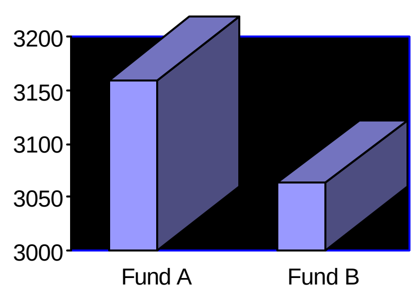
4. Mutual Fund Costs and Expenses

It is important to understand that the principal advantages of professional management, diversification and liquidity offered by mutual funds carry a cost. Costs and expenses charged by mutual funds eat into their investment performance and returns from mutual funds. However, generally costs of investing in mutual funds are lower than costs of investing directly in the shares or bonds.

There are two types of funds costs – a one-time cost known as “sales load/subscription fee” and a continuous cost know as “annual operating expenses” to cover the operating expenses of the fund. Sales loads are charged to meet expenses related to selling mutual fund units to investors. These can be “front-end” which are charged when investors buy units or can be “back-end” when they redeem the units. Funds that do not charge loads are knows as “No-load funds”.

All funds incur operating expenses, such as management fee, legal and accounting fees, trustee fee, postage, printing, telephones, brokerage, etc., which are deducted from their income, before such income is paid to the unit holders in the form of dividends. Management fee or Performance fees charged either individually or in combination is the remuneration paid by the fund to its professional investment managers. The ratio of operating expenses to the total income is called “***Expense ratio***” which is expressed as a percentage of net assets of the fund. While choosing between different funds, investors should look at their expense ratios and then make an informed judgement as to which fund to invest in.

A Mutual Fund’s operating expenses that are charged to a fund directly reduce its returns. To demonstrate, let us assume that you invest JD 2000 in Fund 1 having an expense ratio of 0.7% and Fund 2 having an expense ratio of 1%. Both returns 10% annual before charging expenses. Over a period of 5 years, Fund 1 returns JD 47more than Fund 2 which is almost 2% of the initial investment.



Similarly those funds which charge loads are more expensive than the no load funds.

But, remember that there is no empirical evidence to suggest that no load funds and/or funds which charge lower expenses guarantee better performance than their counterparts.

5. How Mutual Funds Price their Units

Mutual Funds, under the directives issued by the Jordan Securities Commission, are required to determine the prices of their units at regular intervals. A Mutual Fund unit price or its offer price is its NAV per units plus sales-load or subscription fee charged by the fund. Generally, funds fix a day called as ***Valuation Day*** to calculate their NAVs and to determine the prices of their units. This can be daily, bi-weekly or weekly. However, in several parts of the world, open-end funds are required to price their units daily.

NAV Per Unit is

$$\frac{\text{Market value of all securities} - \text{Liabilities}}{\text{Units outstanding on the valuation day}}$$

The NAV is always calculated using the market prices – closing, mid or average- of the securities held by the fund on the valuation day. If there is no market price, then such securities are valued on the principles of good faith. All income and expenses are accrued as on the valuation day. Therefore, the NAV of the units must always reflect the market value of the underlying securities.

Funds can use either ***"historical pricing" or "forward pricing*** " to price their units. A price that is determined by the Fund prior to receiving applications for allotment of new units or redemption of existing units is known as **historical pricing.** In the case of **forward pricing** units are allotted at a price that will be calculated after the receipt of applications for allotment of new units or redemption of existing units.

6. Understanding and Managing Risk

Risk is essentially the variability of return from an investment. Generally speaking higher the risk, higher the return and this is the risk-return trade-off. It is essential for an investor to understand the risk-return tradeoff in order to make meaningful investment decisions. One extreme of the risk return trade off is investments in stocks that provide high returns over the long term but involve a higher risk and the other extreme is the short term money market instruments that provide a very low return but carry very low risk.

All investments whether in shares, bonds, or money market instruments or even mutual funds carry some risk. ***However, risk of investing in shares directly is far greater than in investing mutual funds because funds carry a diversified portfolio of securities managed by professional fund managers.*** Share values may fluctuate depending upon the performance of its issuers, the industry, and the economy. However, over the long term, the risk in investing in shares tends to be lower than short term. Bond prices fluctuate with the interest rates and issuers may fail to pay the income if the performance of the issuer turned negative. Even Investment in Bank deposits carries some risk, risk of inflation eroding the value of the deposit and the banking company failing to repay the deposit due to its bad loans or insolvency. Performance of the mutual fund units depends upon the performance of is underlying securities.

Risk cannot be totally eliminated. But it can be managed through employing several techniques. It is in management of risk the experience and expertise of a professional fund manager plays a crucial role. Investments by mutual funds normally are backed by extensive research on companies, sectors, industry and the economy. This minimizes the risk of loss from such securities. Professional management and diversification normally employed by mutual funds tempers the risk and raises the potential for a higher return.

7. How to invest in Mutual Funds

There can be no one specific way to invest in Mutual Funds. Each investor may have his / her own tailor made plans depending upon their individual characteristics. The following steps are suggestive in nature to invest in mutual funds.

Step One, Determine your Goals and Objectives Decide on your investment objective. Ask yourself:

- Are you interested in high current income? Then choose those income funds offering you high current income with a little bit of growth.

- Are you interested in long term capital growth? Then choose those growth funds aiming to invest in shares of high growth companies which while take risk have a potential to earn higher returns.

- Do you want some income and some growth? Then choose those balanced funds that invest in shares and bonds to provide a regular income as well as a moderate growth of your initial investment.

- Do you look for stability of your investment? Some short term income funds and balanced funds aim to provide a stability of capital through their investment mechanisms. So, select such funds that provide you a low to moderate income and stability of capital.

Step two, Determine your investment horizon. Growth funds require longer holding periods to yield desired returns. On the other hand, Income funds can yield income immediately, the balanced funds do require a medium term horizon for achieving a moderate capital growth while income distributions may occur immediately.

It is important to fix your investment horizon in order to make a right selection of the fund. If your investment period is short term and would want your funds back within a period of one to two years, then you should prefer to invest in bond and short term money market funds. On the other hand, if your investment period is longer term and you are prepared to wait for your returns, stock funds are the right choice.

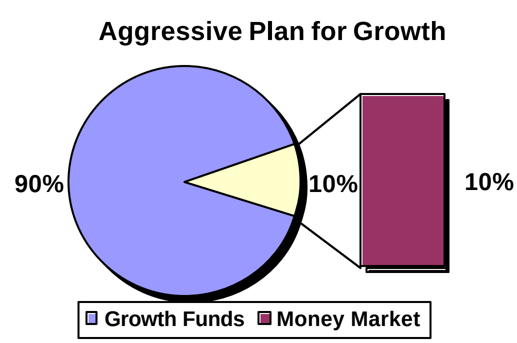
Step three, Assess your risk profile. Like any other investment, mutual funds do carry some risk, though the risk profiles of the funds differ depending upon their investment objective and portfolio selection.

If you are risk averse and would like to see your principal protected, you should never invest in growth funds, which primarily invest in shares and are generally at the top end of the risk map, but invest in money market and income funds which do aim to protect the principal. However, if you are willing to take risk, but does not know how to manage it, choose stock funds that have potential to provide a higher return.

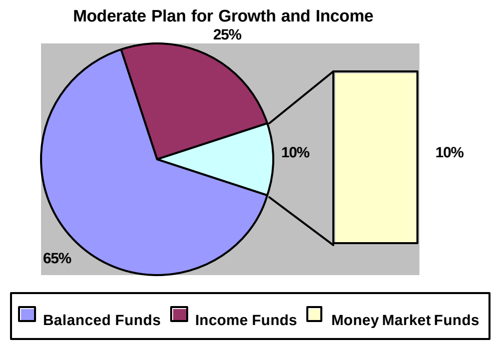
Step four, Assess your financial position. You should consider factors like stability of your job, immediate and upcoming financial needs (say, a wedding, sending a child to college, etc.) and your retirement needs. Generally, the more the stable your job and less the immediate financial obligations, the more the risk one can take and hence more the return one can aim for. Selection of right mix of funds would depend on all such factors.

Step five, Select the right mix of funds. Considering that the investors do have several investment objectives at the same time, it is often not possible to find one single fund that would satisfy those investment needs. It is therefore essential to create a portfolio of funds. While this is a purely an individual phenomenon, here is a suggested chart of portfolios that would guide the investors to make the right choice.

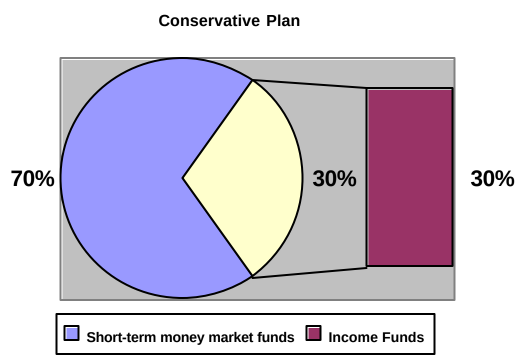
a. Aggressive Plan. Capital growth funds are suitable for investors in their prime earning years, having a stable job and no immediate financial obligations. Those investors seeking long term capital growth and willing to take a lot of risk can opt for such funds. The allocation of investments can go upto 90% in growth funds and 10% in short term money market funds to take care of any immediate needs.



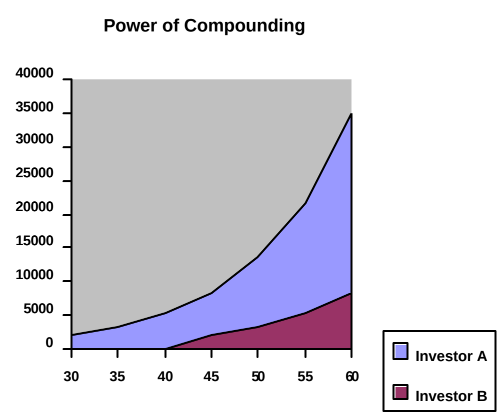
b. Income and Growth Plan. Investors not willing to take too much risk and at the same time desire some regular income from their investments as well as a moderate growth of their investments may opt for Balanced and Income funds. To realize such goals, one may invest up to 65% of their investments into balanced funds, 25% in Income and the balance in short term money market funds to provide for any unforeseen demands.



c. Conservative plan. Retied investors and for those investors, the stability of capital is important over return, should only opt for those funds that invest in short term money market instruments and also government bonds and T.Bills. These funds while providing low returns are the lowest end of risk return spectrum. Such investors may invest up to 60% of their investments into short-term money market funds, up to 30% in Income funds that aim to provide high current income. They should diligently avoid stock funds.



Step Six, Start Early. While there is no time that can be called "right time" to invest, make sure you always start early in investing in funds. This way you can accumulate adequate savings to realize that investment goal of yours for which you have saved in funds. Also starting early will enable your money to earn money through what is called the ***power of compounding.*** Here is how it works, let's assume Investor A has made a one time investment of JD 2000 when he is 25 years old and Investor B made



the same investment when he is 45 years old. Assuming both the investors plan to retire when they reach 60 years, Investor A would have accumulated JD 34,900 from his investment and Investor B JD 8,354, a massive difference of JD 26,456. And this is the power of compounding, where by the annual returns are reinvested yearly and fund earns money on money.

Step Seven, Invest Regularly. Investing regularly, say monthly or quarterly or semi-annually or annually, in a fund an investor not only in a position to accumulate but also would be in a position to take advantage of **Dinar Cost Averaging.** It means as you buy regularly, you may buy a fewer units when the price of units is more and more when the price is lower, this reduces the average cost of your total holding and thus improves the potential for returns. Almost all funds offer systematic investment plans, which encourage the habit of regular investment making the whole investment process easier for investors.

Step Eight, Find the Fund. Get in touch with your financial planner or the sales agent for choosing the fund and buying its units. Mutual fund units can also be bought directly from the Fund companies. Remember that Mutual funds are suitable for every one, whether those that started their working careers or retired, conservative, progressive or speculative, growth oriented or income seeking.

Before you Invest….

- ***Check that the Fund is registered with Jordan Securities Commission.*** In Jordan, all mutual funds are required to be registered with JSC. The JSC has a comprehensive, well defined regulations to register, control, monitor the mutual funds. All unitholders enjoy certain privileges under these regulations.

- ***Read the Prospectus/Information Memorandum of the Fund.*** Every Fund intending to collect subscriptions from public is required to issue a Prospectus. Read the Prospectus to confirm what it offers suits your requirement and profile. The Prospectus, amongst other things will have to state the following:

    - The Investment Objectives of the Fund
    - The Investment Policy of the Fund
    - General Investment guidelines and the Dividend policy
    - The names of the Investment Manager, Trustee and their track record
    - Sale and Redemption of units
    - Calculation of Net Asset Value and its publication
    - Fees and Expenses of the Fund

  - Taxation of the Fund and its unit holders with respect to income from the fund
  - Risk Factors
  - Liquidation of the Fund

- **Do not attempt to "time the market**". Invest Regularly and average your costs. It helps investors in the long run.

- **Consult** your tax, financial advisors, if you need additional help.

8. Glossary

Asset Allocation
The process of apportioning investments into various classes of assets. The three primary classes are Stocks, Bonds and Money Market Instruments

Asset Classes
Major categories of assets. Principal classes are Stocks, Bonds and Money Market Instruments

Balanced Fund
A Mutual Fund that seeks to invest in some pre-determined proportion into stocks , bonds and in certain events money market instruments

Capital Gains/Loss
The difference between the sale of price of an asset such mutual fund unit, stocks, bonds, etc., and its cost price. If sale price more than cost, then there is capital gain otherwise, a loss.

Compounding
The growth that comes from the original principal and the reinvested income and gains.

Distributions.
The income distributions by a Mutual Fund whether in the form of interest or dividend or others, depending on its policy.

Diversification
Investing among different class of financial assets and amongst the securities of various issuers.

Expense Ratio
The ratio of funds' operating expenses to its net assets. The expense ratio takes into account the management fees, advisors' fees, Trustee fee and other operating expenses.

Growth Fund
A Mutual Fund that seeks to invest in Shares of companies having potential for a capital growth.

Income
Interest, dividends and other income realized by a Mutual Fund from its securities.

Income Fund
A Mutual Fund that seeks to invest in Corporate and Government Bonds having potential for high current income.

Investment Manager
A person or an organization that manages the Mutual Fund and makes day to day investment decisions regarding the purchase or sale of its securities.

Investment Objective
A performance goal set by a Mutual Fund such as high current income, capital growth etc.

Load
A sales or redemption charge collected from unitholders by a Mutual Fund

Mutual Fund
An Investment Fund that pools money from its unitholders through sale of its units and invests such money in an array of financial assets such as Shares, Bonds, and Money Market Instruments

Net Asset Value
The market value of a mutual fund's total assets less its liabilities on a valuation day divided by number of units outstanding on that day.

Portfolio
An array of securities held by a mutual fund or an individual.

Prospectus
An Information Memorandum issued by a mutual fund to invite public to subscribe for its units. It contains critical information on the fund and its proposed objectives and operations.

Total Return
The change in the value of investment from one period to another including any income from such investment and its market price.

Yield
The annualized rate at which an investment earns income expressed as percentage to the investment.

Section 2
Materials for workshop held for the staff members of Jordan Securities Commission on May 9, 2001

Section 3
Handouts for workshop held for the Members of Association of Certified Financial Professionals on May 10, 2001

Section 4
A Sample of some forms/reports for Jordan Securities Commission to be used in conjunction with licensing disclosures, monitoring and inspection of Mutual Funds

1. A Sample Application form for Registration of a Mutual Fund

SAMPLE APPLICATION FORM FOR
REGISTRATION OF MUTUAL FUND

Name of the applicant

____

contact person / ___________________________________

Telephone no. : ______________________ fax no.

____

1] Names of the Investment manager and Trustee

2] Addresses of the registered
office / correspondence addresses

Telephone nos.

Telex nos.

Fax nos.

3] Names of the contact persons

4] Year of incorporation
(enclose a copy of certificate of
incorporation of the manager and the trustee)

5] Present line of business activities of the investment manager and the trustee with a brief history: (enclose copy of the company's statute / charter document)

6] Capital structure and shareholding pattern

7] Condensed financial information
(enclose balance sheets and profit and
loss account for five years)

8] Systems and procedures
(furnish description of systems and procedures in the company and essential internal controls in order to carry on the business of the mutual fund)

9] Names of the associate organizations/group companies/subsidiaries, etc.

10] Management of the investment manager and the trustee
(details of board of the company)

11) Names of key personnel to be associated with the fund

12) Organizational structure

13] Names and addresses of the bankers of the investment manager and the trustee

14] Names and addresses of the auditors of the investment manager and the trustee

2. Format of the Report to be provided by the Investment Trustee of the Fund to the Commission. (Frequency of reporting be decided by the Commission)

The report to the Commission by the Trustees should give specific comments on the following:

1. Subscriptions and redemptions occurred during the period under report.
2. Performance of funds under management;
3. Transactions with affiliates and concentration of business with select brokers;
4. Valuation of Funds, methods used and whether such methods are in accordance with Mutual Fund Directives and/or internationally accepted principles;
5. Investments by Funds in excess of prescribed investment limits for any security/issuer and justification for such excess investment;
6. Investment and Trading in securities, if any, by the employees of the Investment Manager, Trustees for their personal account;
7. Conduct of Mutual Fund in accordance with the Directives of the Commission and if not, remedial steps, taken by the Trustee;
8. Publication by the Investment Manager of the Financial reports of the Funds and other communications to the Unit holders;
9. Deficiency letters, if any, received from the Commission and corrective action taken by the Investment Manager and the Trustee;

10. Deviations, if any, in the investment management of the funds or in their operations from the disclosures made in the Prospectus/Offer Documents of those funds and corrective action taken in such instances;

3. **Report of Investments by funds in excess of the prescribed limits set by the Mutual Fund Directives**.

Date	*Type of Security*	*Name of the Issuer*	*Purchase Price*	*Total Value*	*% holding to NAV with this investment*

4. **Report on borrowings made for the Funds (to be made fund wise)**

Date of borrowing	*Type/ Instrument*	*Source*	*Purpose*	*Period*	*Rate*	*Amount borrowed*	*Collateral used*	*Remarks*

5. **Report for Concentration of business with select brokers**

Name of the broker	*Value of business*	*Brokerage paid*	*% value of business to total turnover of the fund*	*Justification for over concentration*